

G. Mustafa Mohatarem

G. Mustafa Mohatarem, Ph.D., was named chief economist of General **Motors** Corporation on March 1, 1995. He serves on the Coordination Committee of **the** corporation's Public Policy Center and the Corporate Risk Management committee.

GM's Corporate Economics Team is responsible for assessing the impact of worldwide economic developments on the corporation. In addition, the Economics **Team** provides advice to the corporation on various competitive and economic policy issues,

Mohatarem is an expert on trade issues and heads the corporation's Trade Team. He interacts regularly with officials from the United States and other countries on trade-related issues. He was the lead contact for GM with the United States and other governments during Uruguay Round General Agreement on Tariffs and Trade (**GATT**) negotiations, as well as the U.S.-Canada Free Trade Agreement, and North American Free Trade Agreement (NAFTA).

He joined General Motors in 1982 as an economist on the Economics Staff in Detroit. In 1985, Mohatarem became senior staff assistant on the Industry-Government Relations Staff. The following year he returned to the Economics Staff **as** senior staff economist specializing in competitive-analysis issues. He was promoted to director of trade and competitive analysis in **1987**, and general director of economic analysis in 1990.

Mohatarem was born on October 15, 1953, in **Quetta**, Pakistan. He received an undergraduate degree in economics and **mathematics** from Denison University, **Granville**, Ohio, in 1976. He earned both master-of-business-administration and doctorate degrees in economics from the University of Chicago in 1979 and 1982, respectively.

He has also served as visiting assistant professor at the University of Notre Dame. While at GM, he has taught courses as an adjunct assistant professor at the University of Michigan and the University of Detroit.

October 1998

STATEMENT OF
GENERAL MOTORS CORPORATION

Presented by
G. Mustafa Mohatarem
Chief Economist

Before the

U.S. TRADE DEFICIT REVIEW COMMISSION
January 21, 1999
Dallas, Texas

Thank you, Mr. Chairman and *Members* of the Commission. My name is **Mustafa Mohatarem**, and I am *the* Chief Economist of General Motors *Corporation*. *I welcome* the opportunity to appear before this **esteemed** panel to *&y* to **present the** views of General Motors on trade policy issues, including the impacts of **the** North American Free Trade Agreement (NAFTA).

GM was an early and strong supporter of NAFTA. The US. auto industry has long benefited from **free** trade with Canada, but prior to NAFTA, Mexico's market was effectively closed to exports of autos from the U.S. NAFTA offered GM and other auto companies **the** opportunity to completely integrate their North American operations. NAFTA **also** promised to deliver more rapid economic growth, improved living standards, increased prosperity, and an increase in higher paying jobs. It also **carried** with it the prospect for enhanced cooperation and goodwill among the U.S., Mexico and Canada. As the largest auto company in the NAFTA region, GM hoped to benefit **from** both the stronger demand and the opportunity to lower costs through rationalization of regional operations offered by NAFTA.

GM is the world's largest industrial company, as well as the world's largest manufacturer of motor vehicles. GM has motor vehicle manufacturing, assembly, **and/or** component production operations in *over 30 countries*. *GM also has* other substantial business interests, including Hughes Electronics, General Motors Acceptance Corporation, **Electro-Motive** Division, and Allison Transmission. Together, these operations employ around 400,000 people worldwide.

As a global corporation, GM has much at stake in the ability to move goods, services, information and personnel quickly, *safely* and cost-effectively across national borders. Nor only are **key** markets emerging in *locations* outside of our traditional bases in **North America** and Western Europe, but the critical **success** factor in our industry today has become the ability to effectively integrate one's operations around the world into a seamless enterprise. In addition, study after study demonstrates that open trade provides a powerful stimulus to the economic growth, improved living standards and innovation that drive our industry and demand for our products.

Because of these **considerations**, General Motors has **been** an early and strong supporter of numerous policies that promote trade, **reduce** trade **barriers** and **build** regional **integration** and cooperation around the world. **These** include the US-Canada Free Trade Agreement, the Uruguay Round of the GATT, and the North American **Free** Trade Agreement that is the topic of attention today.

As an **economist**, I would like to add that *if* there is one issue where economists generally **agree**, it is that international trade is a positive sum game. Elimination of barriers to trade **leads** to broader markets, greater efficiencies in production, greater economic stability, and **faster** economic growth. **Indeed**, economists have identified open trade as one of **the** most important reasons why the US, the world's most open economy, also has **the** world's most productive and **highest paid** work force. Yet, **the** dynamics of trade and its

ensuing benefits remain poorly understood by many, so that the issue of trade **continues** to generate **controversy**.

For example, during **the** debate that preceded congressional approval of NAFTA in 1993, many opponents argued that it would destroy the U.S. auto industry, shrink US auto employment and depress wages. Yet, **the** results have **been** just the opposite. A recent article in the Detroit News called the period since NAFTA's passage a "new golden age" for the US auto industry.

No matter which metric one chooses, times have never been better for the US auto industry:

- Sales are booming. US **sales** in 1999 set an all-time record of 17.4 million cars and trucks. Indeed, annual vehicle sales have exceeded 15.0 million units every year since 1994.
- US auto employment has increased by 20% since 1993 **levels**, representing 164,000 new jobs. In contrast, jobs in the total U.S. manufacturing sector **have** increased by just 2% during this period.
- **Auto** wages are up 15%: **The** average hourly earnings of production workers in **the** auto industry **was** \$18.47 in 1999 (Bureau of Labor Statistics estimate) **compared** with \$16.10 in 1993 — a rate that is a third again higher than the average manufacturing rate of **\$13.91**.
- Profits are healthy. GM, Ford and Daimler-Chrysler are all expected to report record profits for 1999. Reported profits for the first nine months of 1999 alone came to \$14.3 **billion**.

In the eighties and nineties, it was popular to speculate **about** the demise of the US auto industry. Pundits predicted the US auto industry was in its death throes and that the Japanese automakers would dominate the world. Yet, these forecasters seriously **underestimated** the capacity of the US industry to survive, **adapt**, build new relationships and **create** new paradigms. Rather **than** succumb to the Japanese threat, the US auto industry learned how to work smarter, **leaner** and to refocus its energies on the **customer**. And key to this evolution was the understanding that continuing success meant the ability to transcend local boundaries to be a world competitor, capable of standing up to and meeting the challenge from global competitors.

In GM's case, we have worked to build all our operations around **the** world into a united **team** that supports and reinforces our common mission to be a global leader in transportation products and related services. Today, GM is far **from** dead, and we **are** in the midst of expanding our operations around the world. We have **new** state-of-the-art plants in Poland, China, **Indonesia**, Brazil **and** Argentina, and announced **plans** for a major new plant in Michigan.

In 1999, we increased our equity participation in three Japanese companies (Isuzu, Suzuki and Subaru) and watched our competitors pursue similar strategies. Ford has taken over control of Mazda, and Renault has acquired Nissan. However, while we celebrate the renewed competitiveness of the American auto industry, we must not forget that this probably would not have happened if the U.S. had closed its markets and shielded us from foreign competition.

Clearly, the auto industry is doing well and that is good news for our millions of stakeholders -- customers, stockholders, employees, dealers, suppliers, and the communities where we operate and live. Yet NAFTA opponents remain unconvinced. Why?

Dislocations. The biggest fear among NAFTA opponents was that there would be a massive dislocation of work from the US to Mexico, where labor rates are lower. But, this concern ignored the reality that the high level of US productivity offsets Mexico's unit labor cost advantage in many cases. In addition, factors such as location, proximity to suppliers and key services, transportation costs and other factors are important elements in any product sourcing or plant location decision.

Since the beginning of NAFTA, 260,000 workers have been certified to receive benefits under the special trade adjustment assistance program established to compensate and retrain workers whose jobs were shifted to Mexico or Canada. Of these, 17,000 workers were classified in the transportation and equipment industries, which includes not only motor vehicle and equipment workers, but workers in the aircraft, railroad and other industries. A much smaller number of eligible workers actually received trade adjustment benefits, since many were able to find new employment quickly in to&y's tight labor market. While these numbers may still seem large, they pale when one considers that over 16 million private sector jobs have been created since 1993.

The US has been experiencing the longest peacetime expansions in its history. Overall, the unemployment rate has dropped two full percentage points since 1993. Furthermore, with an open market based economy we have significant turnover in jobs in the normal course of business. For example, the normal churning of our economy results in roughly 300,000 job losses a week. Indeed, when the weekly number falls below 300,000, we fret that the U.S. labor market might be too tight for non-inflationary growth.

Trade Deficit. It is true that the bilateral trade balance has shifted from positive to negative since the implementation of NAFTA, primarily because of trade in autos. Opponents cite this as a major concern. But, is it? Let's take a look at the facts.

In recent years, the strong US economy has pulled in imports from Mexico and other countries, contributing to an increase in the US trade deficit. During the recent economic crisis in Mexico, which curbed that country's domestic consumption as well as its appetite for imports, the availability of a strong US market for its exports was an important factor in expediting Mexico's recovery. Now that Mexico's economy is fully recovered from the crisis and growing even more strongly than the U.S. economy, we

expect U.S.-Mexico trade to come into **better** balance.

It is **also** important to remember that the US imported a substantial **number** of **vehicles** **from** Mexico prior to the implementation of NAFTA because these **imports** faced minimal trade restrictions. Moreover, even without NAFTA, one would have expected imports into the U.S. **from** Mexico to increase over the last few years because of strong demand in the U.S. In contrast, vehicle exports from **the** U.S. to Mexico were negligible prior to NAFTA because of high **Mexican** trade barriers. NAFTA changed this imbalance with Mexico agreeing **to** remove its barriers to **imports** from the U.S. and Canada. The growth in exports to Mexico from the U.S. and Canada since **the** implementation of NAFTA has **been** truly impressive. In 1993, the year before NAFTA, GM exported only 1,630 vehicles to Mexico. In **1999**, that number increased to 51,100, accounting for more than a third of our sales in Mexico. Now, it is true that our exports **from** Mexico to **the** U.S. and Canada have **also** increased – **from** 90,700 units in 1993 to 196,000 units in 1999. However, because of the **difference** in market size, imports from Mexico account for only 1% of our U.S. vehicle sales. The ability to ship US products to Mexico to augment our product line there was a critical factor in GM's ability to attain the number one spot in passenger car sales in **Mexico's** domestic market.

Finally, did the US experience any injury because of the rising trade deficit with Mexico? I would argue no.

In a full employment economy, such as the one we have experienced in the US in recent years, it is difficult to find evidence of injury **from** a rising trade deficit. This is **especially** true of the **auto** industry, where shifts have been running overtime and sales have been lost because of the inability to meet demand. It simply isn't **true** that without NAFTA we might have built another US plant. In today's competitive auto environment, manufacturers cannot **afford** to target their capacity to peak demand. More important, without open markets, the Fed **would** have been forced to raise interest rates to curb inflationary pressures. Thus, **U.S** vehicle demand would not have been allowed to reach its current strong level.

The fact that U.S. consumers are free to purchase products **from** the most competitive supplier certainly plays a **role** in the **burgeoning** U.S. trade deficit. However, it is essential **to recognize** that it is imports that improve living standards of American consumers and the competitiveness of American business. Indeed, study **after** study shows that the **greatest** beneficiaries of open trade are low income Americans since lower prices **allow them to stretch** their paycheck further.

Globalization. **The** events at the **recent Seattle** Ministerial demonstrated that many have concerns about the impacts of globalization on their jobs. Yet the only truly effective **way** of safeguarding jobs is to allow companies to become stronger by rationalizing their **operations** and making them more competitive.

In fact, the recent increase in employment in the **US** auto industry is quite significant when one considers the competitive pressures on automakers to do more with less. The

globalization of the U.S. motor vehicle industry has forced GM and other U.S. **auto producers** to rationalize **operations** in order to compete **with** competitors from around **the** world. NAFTA has been an important force in facilitating this necessary **rationalization**.

For example, because of the increased ability to import vehicles into Mexico, GM has been able to reduce the number of models produced in Mexico to achieve better economies of scale. At the same time, we are better able to coordinate **the** production in the three NAFTA countries to achieve more level production scheduling. This helps overall competitiveness, which, in **turn**, benefits our workers and other GM stakeholders.

Certainly, enhanced competitiveness is the best way to assure high-wage jobs. On average, wages in U.S. companies that export tend to be 10-15% higher **than** wages in non-exporting companies.

Unfortunately, it is difficult to sort out the pure effects of NAFTA from the positive effects of a strong U.S. economy, especially because trade between the U.S. and Mexico is such a small percentage of the U.S. economy. But, few would argue with the proposition that open markets in the U.S. created by NAFTA and other trade agreements have provided room to the Fed to allow the U.S. economy to grow more rapidly and to create more jobs without generating inflationary pressures.

To sum up, consistent with our **commitment** to free and open trade, GM was and continues to **be** a strong supporter of NAFTA. NAFTA has lived up to its promise with **all three** countries enjoying strong economic growth. NAFTA was key to helping Mexico make a **fast** recovery from its recent economic crisis and the U.S. has the lowest levels of unemployment and inflation in three decades. And, the benefits of NAFTA go well beyond economics. NAFTA has ushered in a new era of cooperation among the **three** countries on matters such as national security, immigration, environmental protection and drug trafficking. GM believes the assessment of NAFTA is **very** positive and that the economic benefits will continue to grow as the Agreement is implemented in its entirety over the next ten years.